

Department of Health and Human Services

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
PENSION COSTS CLAIMED FOR  
MEDICARE REIMBURSEMENT BY  
BLUE CROSS AND BLUE SHIELD  
OF NEBRASKA**



**JUNE GIBBS BROWN**  
**Inspector General**

JANUARY 1996  
CIN: A-07-95-01167



## DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General  
Office of Audit Services

Region VII  
601 East 12th Street  
Room 284A  
Kansas City, Missouri 64106

CIN: A-07-95-01 167

January 29, 1996

Mr. Duane Wilson, Controller  
Blue Cross and Blue Shield of Nebraska  
P.O. Box 3248  
Main Post Office Station  
Omaha, Nebraska 68 180-0001

Dear Mr. Wilson:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Nebraska*. The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years 1987 through 1994.

We determined that Blue Cross and Blue Shield of Nebraska (Nebraska) claimed pension costs for 1987 through 1994 that are unallowable for Medicare reimbursement. During this period, the allowable Medicare pension costs were \$73,844. However, Nebraska claimed pension costs of \$79,919 for Medicare reimbursement. As a result, Nebraska claimed \$6,075 in pension costs that were unallowable. The over claim occurred primarily because Nebraska did not base its claim on separately computed Cost Accounting Standards (CAS) pension costs for the Medicare segment.

We are recommending Nebraska revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs. We are also recommending that Nebraska base future claims for pension costs on separately computed CAS costs for the Medicare segment. Nebraska accepted our recommendation and its response is included in its entirety as Appendix B.

## INTRODUCTION

### BACKGROUND

Nebraska has administered Medicare Part A operations under cost reimbursement contracts since Medicare's inception. Medicare contractors must follow cost reimbursement principles contained in the Cost Accounting Standards (CAS), the Federal Acquisition Regulations

(FAR), which superseded the Federal Procurement Regulations, and their Medicare contracts.

Since its inception, Medicare has reimbursed a portion of annual contributions paid into contractors' pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

In addition to CAS and FAR requirements, the Health Care Financing Administration (HCFA), starting with Fiscal Year 1988, incorporated specific segmentation language into Medicare contracts. To implement segmentation requirements, contracts stipulated procedures for identifying the Medicare segment and assigning pension assets to the segment.

Furthermore, the contracts required a separate calculation of pension costs for a segment if such a calculation (versus an allocation) materially affected pension costs charged to Medicare. Under a separate calculation method, a contractor identifies separately the normal costs and amortization for the Medicare segment. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

## SCOPE

We made our examination in accordance with generally accepted government auditing standards. This review addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years 1987 through 1994. Achieving the objective did not require a review of Nebraska's internal control structure.

This review was done in conjunction with our audits of pension segmentation (CIN: A-07-95-01159) and unfunded pension costs (CIN: A-07-95-01166). The information obtained and reviewed during those audits was also used in performing this review.

In our audit of unfunded pension costs, we identified Nebraska's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Nebraska funded CAS pension costs with contributions to the pension trust fund.

Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for Fiscal Years 1987 through 1994.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Nebraska's historical practices.

We performed site work during June 1995 at Nebraska's corporate offices in Omaha, Nebraska. Subsequently, we performed audit work in our Kansas City, Missouri Regional Office.

## **FINDING AND RECOMMENDATIONS**

For Fiscal Years 1987 through 1994, Nebraska claimed \$6,075 in pension costs that are not allowable for Medicare reimbursement. The pension costs are unallowable because the costs exceeded the funded portion of the CAS computed costs. The over claim occurred primarily because Nebraska did not base their claim on separately computed CAS pension costs for the Medicare segment. Nebraska should revise its FACP's to eliminate the unallowable pension costs.

Nebraska claimed pension costs for Medicare reimbursement for fiscal years 1987, 1993 and 1994. For years 1988 through 1992 Nebraska did not claim Medicare reimbursement for pension costs, because no contributions were made to the pension trust fund.

Nebraska based its 1987 and 1994 claims on an allocation of total company contributions. Nebraska assigned a portion of the allocated contributions to Medicare direct and indirect operations using cost center and line of business information.

For 1993 Nebraska's claim was based on separately calculated pension costs for the Medicare segment, and an allocation of total company costs for indirect Medicare operations. The pension cost calculations were provided by their consulting actuary.

Generally, pension costs allowable for Medicare reimbursement are limited to the lesser of CAS computed pension costs or actual contributions. However, contributions made in excess of the CAS computed pension costs create a prepayment credit that carries forward to fund future period(s) pension costs. Any subsequent pension costs that are funded by the prepayment credit are allowable for Medicare reimbursement. This is the situation that occurred at Nebraska for years 1987 and 1988.

For years 1987, 1988, and 1993 Nebraska did not claim \$9,927 for pension costs which were allowable for Medicare reimbursement. The pension costs were allowable because the funded portion of CAS computed costs exceeded the costs claimed. The under claim occurred primarily because Nebraska failed to consider a prepayment credit that resulted from excess contributions for plan year 1986.

For 1994, Nebraska claimed \$16,002 of unallowable pension costs. The costs were unallowable because the costs claimed exceeded the funded portion of CAS computed costs. The over claim occurred primarily because Nebraska did not base its claim on separately computed CAS pension costs for the Medicare segment.

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. Additionally, the calculation included a prepayment credit that was created in plan year 1986. See Appendix A for details.

Comparing the allowable CAS pension costs to the pension costs claimed on Nebraska's FACP's shows:

<u>Fiscal Year</u>	<u>costs Claimed (A)</u>	<u>Allowable CAS Costs (B)</u>	<u>Variance (A)-(B)</u>
1987	\$ 1,600	\$ 8,400	\$(6,800)
1988	0	2,397	(2,397)
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	0	0
1993	23,112	23,842	(730)
1994	<u>55,207</u>	<u>39,205</u>	<u>16,002</u>
TOTAL	<u>\$79,919</u>	<u>\$73,844</u>	<u>\$ 6,075</u>

For 1987 through 1994, Nebraska claimed pension costs of \$79,919 for Medicare reimbursement. However, the allowable CAS pension costs were \$73,844. As a result, Nebraska claimed pension costs of \$6,075 that are in excess of the allowable CAS pension costs.

#### Recommendations

We recommend that Nebraska:

- ❶ Revise its FACP's to eliminate \$6,075 for pension costs in excess of the allowable CAS pension costs.
- ❷ Base future claims for pension costs on separately calculated CAS costs for the Medicare segment and an allocable portion of plan (total company) CAS costs attributable to the indirect Medicare operations.

**Auditee Response**

Nebraska accepted our recommendations.

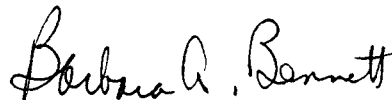
**INSTRUCTIONS FOR AUDITEE RESPONSE**

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified below. We request that you respond to each of the recommendations in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

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In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Sincerely,



Barbara A. Bennett  
Regional Inspector General  
for Audit Services

Enclosures

HHS Action Official:

Mr. Joe L. Tilghman  
Regional Administrator, Region VII  
Health Care Financing Administration  
601 East 12th Street, Room 235  
Kansas City, Missouri 64106

**BLUE CROSS AND BLUE SHIELD OF NEBRASKA**  
**OMAHA, NEBRASKA**  
**CIN: A-07-95-01167**

**STATEMENT OF ALLOWABLE CAS PENSION COSTS**  
**FOR FISCAL YEARS 1987 THROUGH 1994**

Description	Total Plan	Other Segment	Medicare Segment
1987 Plan Year Contributions <u>1/</u>	\$ 0	\$ 0	\$ 0
Discount for Interest <u>2/</u>	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions <u>3/</u>	\$ 0	\$ 0	\$ 0
Prepayment Credit <u>4/</u>	<u>124,607</u>	<u>117,174</u>	<u>7,433</u>
Present Value of Funding <u>5/</u>	\$124,607	\$117,174	\$ 7,433
CAS Pension Costs <u>6/</u>	192,869	182,507	10,362
Absorbed Credit <u>7/</u>	<u>(19,167)</u>	<u>(19,167)</u>	<u>0</u>
CAS Funding Target <u>8/</u>	\$173,702	\$163,340	\$10,362
Percentage of Costs Funded <u>9/</u>		<u>71.73%</u>	<u>71.73%</u>
Funded CAS Pension Cost <u>10/</u>		\$117,174	\$ 7,433
Allowable Interest <u>11/</u>		<u>0</u>	<u>0</u>
Allocable Pension Cost <u>12/</u>		\$117,174	\$ 7,433
Fiscal Year Pension Cost <u>13/</u>		87,881	5,942
Medicare LOB Percentage <u>14/</u>		<u>3.14%</u>	<u>94.95%</u>
<b>Medicare Pension Cost <u>15/</u></b>		<b>\$ 2,759</b>	<b>\$ 5,642</b>
1988 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	63,673	57,306	6,367
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$ 63,673	\$ 57,306	\$ 6,367
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0
Fiscal Year Pension Cost		29,294	1,858
Medicare LOB Percentage		<u>2.12%</u>	<u>95.57%</u>
<b>Medicare Pension Cost</b>		<b>\$ 621</b>	<b>\$ 1,776</b>

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Description	Total Plan	Other Segment	Medicare Segment
1989 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	184,506	180,759	<b>3,747</b>
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$184,506	\$180,759	<b>\$3,747</b>
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
<b>Allocable Pension Cost</b>		<b>\$ 0</b>	<b>\$ 0</b>
1990 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	199,600	191,264	<b>8,336</b>
Absorbed Credit	<u>0</u>	<u>0</u>	- - A
CAS Funding Target	\$199,600	\$191,264	<b>\$8,336</b>
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
<b>Allocable Pension Cost</b>		<b>\$ 0</b>	<b>\$ 0</b>



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Description	Total Plan	Other Segment	Medicare Segment
1991 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$0	\$ 0	\$ 0
CAS Pension Costs	<b>206,476</b>	193,964	12,512
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	<b>\$206,476</b>	\$193,964	\$12,512
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
<b>Allocable Pension Cost</b>		<b>\$ 0</b>	<b>\$ 0</b>
1992 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	189,953	174,268	15,685
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$189,953	\$174,268	\$15,685
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
<b>Allocable Pension Cost</b>		<b>\$ 0</b>	<b>\$ 0</b>

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Description	Total Plan	Other Segment	Medicare Segment
1993 Plan Year Contributions	\$1,111,293	\$1,051,521	\$59,772
Discount for Interest	<u>(69,169)</u>	<u>(65,449)</u>	<u>(3,720)</u>
Present Value of Contributions	\$1,042,124	\$ 986,072	\$56,052
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$1,042,124	\$ 986,072	\$56,052
CAS Pension Costs	759,434	718,587	40,847
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$ 759,434	\$ 718,587	\$40,847
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$ 718,587	\$40,847
Allowable Interest		<u>43,265</u>	<u>2,459</u>
Allocable Pension Cost		\$ 761,852	\$43,306
Fiscal Year Pension Cost		571,389	32,480
Medicare LOB Percentage		<u>1.21%</u>	<u>52.12%</u>
<b>Medicare Pension Cost</b>		<b>\$ 6,914</b>	<b>\$16,928</b>
1994 Plan Year Contributions	\$1,433,370	\$1,364,175	\$ 69,195
Discount for Interest	<u>(7 1,064)</u>	<u>(67,634)</u>	<u>(3,430)</u>
Present Value of Contributions	\$1,362,306	\$1,296,541	\$ 65,765
Prepayment Credit	<u>306,719</u>	<u>290,222</u>	<u>16,497</u>
Present Value of Funding	\$1,669,025	\$1,586,763	\$ 82,262
CAS Pension Costs	1,014,114	963,468	50,646
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,014,114	\$ 963,468	\$ 50,646
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$ 963,468	\$ 50,646
Allowable Interest		<u>50,259</u>	<u>2,641</u>
Allocable Pension Cost		\$1,013,727	\$ 53,287
Fiscal Year Pension Cost		956,961	50,986
Medicare LOB Percentage		<u>1.20%</u>	<u>54.37%</u>
<b>Medicare Pension Cost</b>		<b>\$ 11,484</b>	<b>\$ 27,721</b>

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS  
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FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The calculation of the prepayment credit is shown in our report of Nebraska's unfunded pension costs (CIN: A-07-95-01 166).
- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provide the basis to compute the allowable pension cost that can be charged to Medicare. See our audit of Nebraska's unfunded pension costs for more details concerning how the CAS costs were computed.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding. See our audit of Nebraska's unfunded pension costs for more details concerning how the unabsorbed credit was computed.

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**STATEMENT OF ALLOWABLE CAS PENSION COSTS  
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- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of each quarter.
- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 13/ We converted the calendar year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations. The allocable CAS pension cost for plan year 1986 was (\$18,705) for the other segment, and \$1,467 for the Medicare segment. The calculation of the 1986 CAS pension cost is shown in our report on Nebraska's unfunded pension costs.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Nebraska.
- 15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

**BlueCross BlueShield  
of Nebraska**

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December 7, 1995

Ms. Barbara A. Bennett  
Regional Inspector General for Audit Services  
Region VII Office of Inspector General  
Department of Health and Human Services  
601 East 12th Street, Room 284A  
Kansas City, MO 64106

Re: CIN: A-07-95-01167  
A-07-95-01159  
A-07-95-01166

Dear Ms. Bennett:

We have reviewed the findings included in the above drafts of the Office of Inspector (OIG) Medicare Pension Audit. We will accept the recommendations in each of the drafts and will move forward to carry out the requested actions.

In the course of our review we had questions about the Medicare segment salary component used in the computations and requested some additional information. Additional material was received for FY 1987, 1988, 1993, and 1994 for review.

The review of this additional information determined that the Medicare segment definition used in the computations was different from our understanding of the composition of the segment. The difference was our Medicare "allocation only" cost centers. These "allocation only" cost centers are used solely by Medicare personnel. These represent a situation where a given Medicare staff person may charge time to several different cost centers in the payroll system even though their function is totally Medicare oriented. The purpose of this process relates to the derivation of certain information for proper recording and reporting on Medicare Interim Expenditure Reports (IER). Specifically, these cost centers are 484, 485, 486, 487, 489, 490, and 491. In fiscal year 1987 cost centers 488, 493 (also FY88), 494, and 495 were also of this nature.

This difference in segment definition has subsequently been discussed with your office and there doesn't seem to be a problem with either definition of the segment. The identified cost centers were included in the indirect Medicare allocation for audit purposes. As stated earlier we will accept the draft audit findings and implement the suggested recommendations but we also want to make sure the correct segment is identified and used prospectively.

If I can be of any further assistance in this matter please give me a call. My telephone number is (402) 398-3701.

Sincerely, '

Duane Wilson  
Controller

cc: Robert Rhodes, BCBSA  
Carol Navin, BCBSA  
Eric Shipley, HCFA, Office of Actuary, Baltimore